EFRAG
Financial reporting

Contracts for Renewable Electricity (Proposed amendments to IFRS 9 and IFRS 7)

Feedback to respondents – EFRAG Final Comment Letter

September 2024

This Feedback Statement has been compiled by the EFRAG Secretariat to summarise the main comments received by EFRAG on its draft comment letter and explain how those comments were considered by EFRAG during its technical discussions leading to the publication of its final comment letter. The content of this Feedback Statement does not constitute any form of advice or opinion and does not represent the official views of EFRAG or any individual member of the EFRAG FRB or EFRAG FR TEG.

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Introduction

Objective of this feedback statement

EFRAG published its final comment letter on the IASB's Exposure Draft ED/2024/3 *Contracts for Renewable Electricity – Proposed amendments to IFRS 9 and IFRS 7* ('the ED') on 31 July 2024. This feedback statement summarises the main comments received by EFRAG on its draft comment letter and explains how those comments were considered by EFRAG during its technical discussions leading to the publication of EFRAG's final comment letter.

Background to the ED

In light of the European Green Deal policy initiatives, more and more companies are looking to procure electricity coming from renewable sources by entering into power purchase agreements that include transfers of Renewable Energy Certificates or similar certification of origin (RECs), both physical and virtual (PPAs and VPPAs, respectively), and the number of these types of contracts is expected to further increase in the future.

In June 2023 the IFRS Interpretation Committee (IFRIC) discussed a request about the application of the own use exception in paragraph 2.4 of IFRS 9 *Financial Instruments* and recommended the IASB to consider undertaking a narrow scope standard-setting project focused on the application challenges of PPAs.

Indeed, based on the request received by the IFRIC, the application challenges experienced from working with these contracts arise because:

- electricity cannot be stored economically; and
- delivered electricity is required to be either consumed or sold back to the grid within a short period of time after the delivery, as determined by the market structure.

Based on the research performed and after gathering feedback from various ASAF members of different jurisdictions, the IASB noted that virtual PPAs – PPAs that require net settlement of the difference between the prevailing market price and

the contractually agreed price – pose additional application challenges that many stakeholders face.

The objective of both physical and virtual PPAs is to ensure the access to or offset of electricity (often from renewable sources) while fixing the price per unit of electricity purchased or sold. Consequently, the economic outcomes of the two types of contracts are the same.

Further, the IASB noted that stakeholders asked for a timely solution because of the increase in the demand for electricity from renewable sources.

Therefore, the IASB decided to undertake a narrow scope project focusing on both the own use exception and hedge accounting requirements of IFRS 9 to address the application questions related to physical and virtual PPAs. Further details are available on the IASB's website.

EFRAG's draft comment letter

EFRAG published a draft comment letter (DCL) on the proposals on 13 June 2024. In the draft comment letter, EFRAG welcomed the IASB's efforts and approach to addressing both own-use exception requirements as well as hedge accounting requirements.

EFRAG generally supported the narrow scope of the ED; however, it noted that the proposed scope was limited to the contracts containing a 'pay-as-produced' feature, whereas a wide variety of contracts contain other features that pose similar application issues. EFRAG argued that other types of contracts should also have been considered in the proposed amendments.

EFRAG agreed with the direction of the proposals on what an entity should consider when assessing if the contracted electricity is consistent with the entity's expected purchase or usage requirements. However, EFRAG highlighted application challenges related to some of the requirements outlined in the ED, specifically as it relates to time period considerations.

EFRAG welcomed the IASB's thorough approach distinguishing between the considerations for sellers and purchasers when proposing the hedge accounting requirements for the contracts in the scope of the ED.

Regarding the disclosure requirements, EFRAG suggested that proposed disclosure requirements should apply only to contracts within the scope of the ED qualifying for the own use exception.

Comments received from respondents

EFRAG has received and considered 12 comment letters from respondents. These comment letters are available on EFRAG's website.

The comment letters received came from national standard setters, business associations, professional organisations, a solo practitioner and an EU authority.

Further details regarding the list of respondents can be found in Appendix 1.

In addition to the comment letters received, EFRAG participated in a joint outreach event held on 4 July 2024 together with the IASB, the ASCG (Accounting Standards Committee of Germany) and the AFRAC (Austrian Financial Reporting Advisory Committee), where it discussed EFRAG's DCL with the EFRAG User Panel and EFRAG Sustainability Reporting Board.

During the period preceding the publication of the DCL, the EFRAG Secretariat discussed the proposals with the EFRAG Financial Instruments Working Group, EFRAG User Panel, EFRAG Consultative Forum of Standard Setters, EFRAG Financial Reporting Technical Expert Group and EFRAG Financial Reporting Board.

Since the publication of the DCL, the EFRAG Secretariat discussed the ED proposals with Canada's Accounting Standards Board, New Zealand Accounting Standards Board and Australian Accounting Standards Board. Further, the EFRAG Secretariat observed the UKEB Board and UKEB Financial Instruments Working Group discussions on the subject matter. The objective was to understand the state of play in the different jurisdictions.

EFRAG's final comment letter

EFRAG issued its final comment letter (FCL) on 31 July 2024. The final comment letter overall remained consistent with the draft comment letter, expressing EFRAG's support for the direction of the IASB's proposals as geared towards a narrow scope application, addressing both own use exception requirements and hedge accounting requirements. The comments provided in response to the questions raised in the ED focused mainly on the following aspects.

Scope

EFRAG suggested clarifying the considerations when assessing the exposure to substantially all volume risk, considering market structure and contract features such as volume caps and/or floors. Furthermore, EFRAG noted that the proposed scope is currently limited to contracts containing 'pay-as-produced' features; however, a wide variety of contracts contain 'pay-as-forecasted' and 'pay-as-nominated' features. EFRAG believes that contracts with the aforementioned features should not be scoped out of the proposed amendments.

Own use assessment

EFRAG agreed with considerations being made when assessing if the contracted electricity purchases are consistent with the entity's expected purchase or usage requirements. However, EFRAG noted that the example of one month is too restrictive and suggests capping the time period to a maximum of 12 months to account for seasonality.

Hedge accounting requirements

EFRAG suggested providing guidance for purchasers' assessment of the 'highly probable' criterion considering the long duration of contracts.

Disclosure requirements

EFRAG suggested that the proposed disclosure requirements should apply only to contracts within the scope of the ED qualifying for the own use exception. Further, EFRAG recommended that the IASB reconsider the disclosure requirements outlined in paragraphs 42V of the ED as they are perceived as unsuitable. Instead, information related to the financial impact of the sale of unused volumes may help enable users to understand how the contracts in the scope of the ED affect the purchaser's financial performance during the reporting period. EFRAG also questioned whether the items of information requested in paragraphs 42U and 42V(a) of the ED are fit for the purposes of financial statements, as this information may be better placed in the sustainability report.

EFRAG's tentative views expressed in the draft comment letter and respondents' comments

General comments

Proposals in the ED

The ED proposed narrow scope amendments to IFRS 9 and IFRS 7 to address the application issues related to the contracts for renewable electricity.

Detailed proposals are presented in dedicated sections of this document (questions 1 to 7).

EFRAG's tentative position

In general, EFRAG welcomed the IASB's timely efforts and approach. In its DCL, EFRAG highlighted questions and/or concerns relevant to the scope of the proposed amendments, proposed own use and hedge accounting requirements, proposed disclosure requirements, and transition and effective date.

Respondents' comments

Constituents expressed their support for the IASB's proposals and gratitude to the IASB for its timely efforts in addressing the matter. Further, constituents raised their concerns and application questions in relation to the topics outlined in the ED. The feedback received is summarised in dedicated sections of this document.

EFRAG's response to respondents' comments

EFRAG's final position

Based on the comment letters received, EFRAG noted the support of the respondents to its tentative position. Additional comments and considerations were provided by the constituents in response to each question posed in the IASB's ED to illustrate the views expressed in the comment letters or to provide additional market-specific information and considerations. Therefore, only limited changes were implemented in between EFRAG's draft comment letter and its final comment letter. EFRAG deems the large majority of the comments received to be faithfully represented in its final comment letter.

The summary of the comment letters received was subject to EFRAG's FR TEG and EFRAG FRB analysis and discussion. A limited number of comments and considerations raised by the constituents were not included in the final comment letter. All such situations are further explained in the dedicated sections of this document (questions 1 to 7) outlining the considerations retained by EFRAG FR TEG and EFRAG FRB.

EFRAG's tentative views expressed in the draft comment letter and respondents' comments

Q1 – Scope of the proposed amendments

Proposals in the ED

The scope of the proposed amendments is limited to contracts with the following two characteristics:

a) the source of production of electricity is nature-dependent so that the supply cannot be guaranteed at specified times or for specified volumes; and

b) the contract exposes the purchaser to substantially all volume risk defined as the risk that the volume of produced electricity does not align with the purchaser's demand at the time of production.

EFRAG's tentative position

In its DCL, EFRAG expressed its support for the narrow scope of the proposed amendments.

EFRAG recommended to clarify the meaning of 'nature-dependent' and how this criterion is to be assessed.

Further, EFRAG noted that the baseload contracts are excluded from the current scope, as formulated in the ED, and suggested to reconsider the scope in light of said contracts in order to include them.

Moreover, EFRAG drew attention to the judgemental criterion of 'substantially all volume risk' and suggested to clarify how to assess it. From the same perspective, the 'volume risk', as defined in the ED, requires assessment to include consideration of the purchaser's demand instead of focusing on the terms and conditions of the contracts, which would be a more objective evaluation, independent of the characteristics of the party/parties involved in the contract.

EFRAG's response to respondents' comments

EFRAG's final position

In its FCL, EFRAG supported the narrow scope outlined in the ED, maintained its comments included in the DCL and expanded some comments to align it with the feedback received by its constituents.

General scope consideration

EFRAG acknowledged this project's time constraints and supported its narrow scope; however, it called upon the IASB to promptly address – albeit in a separate project – the accounting for RECs and similar certificates and to consider potential disclosure requirements for own use contracts outside the scope of this ED.

EFRAG did not raise in its FCL the need expressed in five comment letters and by various stakeholders in outreach activities to expand the scope of the proposals to other contracts or commodities during the PIR on IFRS 9 *Hedge accounting*. EFRAG assessed that to call upon the expansion of the scope of the proposals without preliminary discussion with its technical expert group and various consultative bodies would not comply with the due process and would not be relevant for the objectives of the current project. Therefore, EFRAG noted the comments received on this subject and will further consider them in due time during the PIR on IFRS 9 *Hedge accounting* and/or during the next IASB's agenda consultation.

Source of production

EFRAG recommended that all electricity contracts where there is uncertainty about the timing or volume of electricity coming from converting energy from sun, wind or water be candidates for inclusion within the scope. If it is decided to continue with the current wording, EFRAG recommended that the IASB clarify the meaning of 'nature-dependent' in light of BC9 of the Basis for Conclusions on the

EFRAG's tentative views expressed in the draft comment letter and respondents' comments

Respondents' comments

Comment letters

The majority of the constituents supported the narrow scope of the proposed amendments. One constituent especially highlighted the need for the proposals to be distinct and not subject to a principle-based assessment as they represent significant deviations from current regulation. Another constituent noted that the proposals represent a first step on the path to better alignment with the US GAAP guidance (where the contracts without a notional value which is readily determinable or which can be derived from the contractual clauses are not considered derivatives to begin with).

General scope considerations

Several responders called upon the IASB to promptly address the accounting for Renewable Energy Certificates or similar certificates of origination (RECs), noting that excluding the accounting for RECs from the scope of the current ED might be misinterpreted in a way that the RECs should not be accounted for as own use. One constituent raised the question of the unit of account, suggesting the IASB to investigate the possibility to identify and account separately for other components of the contract (time or volume components) in its upcoming projects.

Several responders called upon the IASB to consider the application of hedge accounting proposals to other types of contracts or other commodities as part of the PIR of IFRS 9 *Hedge accounting* or as a separate project, noting cases where the reasoning outlined in the IASB's proposals can also be applied (i.e. contractually agreed volume varies with a hedged volume, leading to no real ineffectiveness or load-following swaps).

In addition, a suggestion was made by one constituent to consider the need for additional hedging requirements for financial instruments with a contingent event feature when assessing the 'highly probable' criterion.

EFRAG's response to respondents' comments

ED, whose characteristics were assessed, and its considerations leading to the conclusion that there is no volume risk for some hydro and biomass contracts.

At the same time, EFRAG noted that the notion of 'guaranteed supply' may be subject to interpretation and may create additional complexity in the scope assessment, which could potentially unwittingly exclude contracts where the entire production is contractually taken by various purchasers, some with fixed volumes. EFRAG suggests specifying that the contract in scope should contain uncertainty as to the volume of electricity to be delivered from the specified facility or facilities and/or the timing of the delivery rather than using the wording 'supply cannot be guaranteed'.

By incorporating the comments presented above, EFRAG believes it has taken into consideration the concerns specific to the 'source of production' aspect raised by various stakeholders in their responses to EFRAG's DCL in various outreach activities and during discussion with EFRAG groups.

Exposure to substantially all volume risk

EFRAG noted that the wording 'substantially all' is a judgmental criterion which may lead to diversity in practice; however, if the IASB continues to use the current wording, EFRAG suggests providing additional clarification regarding the factors to be considered when evaluating contracts against this criterion, including:

a) further clarifying that the assessment of substantially all volume risk is to be done at the contract level and not at the unit of production level, thereby ensuring that purchasers of portions of the production are not excluded from the scope of the amendments;

b) further clarifying the level of exposure to the risk, noting that the concept of 'substantially all' is already used in the analysis of asset derecognition and results in practice in a very high threshold. In some (virtual) power purchase agreements ((V)PPAs), the allocation of uncertainty can be mitigated by cap and/or floor mechanisms that limit the exposure to the

EFRAG's tentative views expressed in the draft comment letter and respondents' comments

A respondent highlighted that the IASB should evaluate, as part of a different project, potential disclosure requirements for own use contracts outside the scope of this ED so that the finalisation of the current proposals is not delayed.

Regarding the characteristics of contracts for renewable electricity, as described in the ED, the comments provided by the constituents are presented below.

Source of production

Several constituents noted that the examples of the sources of production in the scope of 6.10.1(a), which are wind, sun and water, are helpful; however, they raised concerns whereby the guidance outlined in BC9 creates some ambiguity and suggested that the IASB clarify which characteristics were assessed and what were the IASB's considerations leading to the conclusion that there is no volume risk for some hydroelectricity and for biomass contracts. Constituents commenting on this issue suggested that hydroelectricity should always be in the scope of the proposals as in the longer term the volume risk is present. A similar comment was made regarding the biomass. One constituent further suggested that all existing types of renewable energy as well as their characteristics should be taken into account and be subject to a comprehensive review.

Exposure to substantially all volume risk

A majority of the constituents reacted to the proposed requirements included in paragraph 6.10.1(b) of the ED.

The notion of substantially all volume risk was asked to be further clarified and delineated given the subjective judgement it entails. Constituents highlighted that it was not clear how the notion of substantially all volume risk is to be assessed and suggested:

a) to further clarify that the assessment of substantially all volume risk is to be done at the contract level and not at the unit of production level;

EFRAG's response to respondents' comments

volume uncertainty without fully removing it. With such a high threshold, this condition would result in the exclusion of certain contracts from the scope, which does not seem to be aligned with the objectives of the project;

c) further clarifying how the notion of 'substantially all volume risk' is to be assessed in the presence of intermediaries operating in some markets and/or in case that an entity enters into additional agreements with other counterparties to transfer the uncertainty of nature-dependent features to a third party; and

d) reconsidering the definition of the volume risk, noting that the volume risk which involves volume and timing should be linked to the characteristics of the contract rather than the energy consumption of the purchaser.

At the same time, EFRAG expressed its concern that the current drafting limits the scope solely to contracts with the 'pay-as-produced' feature, noting that many contracts within the EU and EEA have 'pay-as-forecasted' / 'pay-as-nominated' features. EFRAG considers that these contracts should also be considered in the proposed amendments, as they expose the purchaser to similar application issues.

Moreover, EFRAG noted that significant fixed profile contracts (thus fixed timing of delivery and fixed volume to be delivered), including so-called 'baseload' contracts, are present on the market in various jurisdictions and represent a significant portion of electricity contacts linked to production facilities using energy from the sun, wind or water. It is important for EFRAG that these contracts be in the scope of the proposed amendments so long as they fulfil the criteria of delivering or referring to electricity as being expected to come from facilities converting sun, wind or water energy to electricity and containing volume or timing uncertainty related to the production of such electricity. Should the IASB maintain the exclusion of fixed profile contracts from the scope of the proposed

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b) to further clarify the level of exposure to the risk, noting that the concept of 'substantially all' is already used in the analysis of asset derecognition and results in practice in a very high threshold. In some (v)PPAs, the allocation of the uncertainty can be mitigated by cap and/or floor mechanisms that limit the exposure to the uncertainty without fully removing it. With such a high threshold, this condition would result in the exclusion of certain contracts from the scope, which does not seem to be aligned with the objectives of the project;

c) to further clarify how the notion of 'substantially all volume risk' is to be assessed in the presence of intermediaries operating in some markets and/or in case where an entity enters into additional agreements with other counterparties to transfer the uncertainty of nature-dependent feature to a third party. Moreover, it was noted that in some markets or in some contracts the delivery or settlement takes place on a 'day-ahead forecast basis', thus ceasing nature-dependency before the actual delivery of electricity; and

d) to reconsider the definition of volume risk, noting that volume risk, which involves volume and timing, should be linked to the characteristics of the contract rather than the energy consumption of the purchaser. Current wording may be misleading as to its interpretation (substantially all of the electricity under the contract must be subject to the risk of being unused by the purchaser or the risk is based on substantially all of the volume of the production facility specified in the contract).

A majority of the constituents commented that the scope should not be limited to contracts having the 'pay-as-produced' feature referenced in the ED and that contracts with other similar features should be considered (i.e. 'pay-as-forecasted', 'pay-as-nominated'). One constituent further suggested that the IASB clarifies its considerations related to the so-called 'baseload' contracts.

EFRAG's response to respondents' comments

amendments, EFRAG suggests that the IASB provide a rationale for such an exclusion.

By incorporating the comments above, EFRAG believes it has taken into consideration the concerns specific to the 'exposure to substantially all volume risk' aspect raised by various stakeholders in their responses to EFRAG's DCL and in various outreach activities and discussions with EFRAG groups.

The 'renewable electricity' term

EFRAG suggested reconsidering the use of the term 'renewable electricity', noting that it may lead to ambiguity and create an additional layer of complexity considering how it interfaces with the RECs. Further, EFRAG noted that the scope of the IASB's proposals, as currently outlined in 6.10.1, would not be impacted if the term 'renewable' were omitted or another term were used, reflecting the fact that the scope refers to characteristics of the production facility rather than the labelling of electricity features in the marketplace.

By incorporating this comment in its FCL, EFRAG addressed the concerns raised in the comment letters and expressed by various stakeholders during the outreach events and discussions with EFRAG groups.

Other matters

EFRAG did not raise in its FCL concerns expressed in two comment letters regarding the wording used by the IASB in its ED and how it could be applied to both physical and virtual PPAs. Based on the feedback received by its FR TEG and FRB, EFRAG noted that the wording used by the IASB is commonly used in the market for both types of PPAs, and the risk for such wording to be misleading is limited.

EFRAG's tentative views expressed in the draft comment letter and respondents' comments	EFRAG's response to respondents' comments

One constituent noted that the contracts meeting the requirements of 6.10.1(a) would be subject to volume risk and challenged the usefulness of the term 'substantially all' as creating an additional area for judgement.

The 'renewable electricity' term

Some constituents commented on the use of the term 'renewable electricity' noting that it may lead to ambiguity and create an additional layer of complexity, considering how it interfaces with the RECs. Further, two constituents noted that the scope of the IASB's proposals as currently outlined in 6.10.1 will not be impacted if the term 'renewable' is omitted, and another constituent suggested to consider different wording reflecting the fact that the scope refers to characteristics of the production facility rather than the labelling of electricity features in the marketplace.

Other matters

Some constituents highlighted that the proposed scope is applicable to both own use exception requirements and hedge accounting requirements and therefore should accommodate both physical and virtual contracts. Constituents noted that in virtual PPAs there is no 'purchaser' of electricity in a derivative contract that is only net settled and suggested to reconsider the wording used (the proposed wording is 'party to a contract which is not an electricity producer'). Similar considerations were provided in regard to 'contracts for renewable electricity', noting that in case of the net settlement, renewable electricity is a referenced underlying variable and the contracts are therefore 'contracts referencing renewable electricity'.

Outreach activities

Participants in outreach events noted that the 'pay-as-produced' criterion is too narrow and that other features should also be included (i.e. 'pay-as-forecasted', 'pay-as-nominated').

EFRAG's tentative views expressed in the draft comment letter and respondents' comments	EFRAG's response to respondents' comments
It was further mentioned that the criterion 'transfer of the volume risk to the purchaser' is a suboptimal limitation; rather, the timing risk is key. In addition, non-storability is a crucial point, but this is not formulated as a feature. Moreover, it was pointed out that contracts without price risk are not relevant for the ED and that this should be expressed more clearly within the scope description. Finally, it was mentioned that cap clauses and 'baseload contracts' are also widespread and relevant. It seems unclear whether these types of contracts are covered by the proposals, as in these cases the volume risk is transferred only partially. Several constituents highlighted that it was important to include the baseload contracts within the scope of the proposed amendments as they were exposing the stakeholders to similar application issues.	

EFRAG's tentative views expressed in the draft comment letter and respondents' comments

Q2 – Proposed 'own use' requirements

Proposals in the ED

To be able to apply paragraph 2.4 of IFRS 9 to contracts in the scope of the proposed amendments, the ED requires an entity to consider at the inception of the contract and at each reporting date:

- the purpose, design and structure of the contract, including volumes to be delivered; and
- whether past and expected sales of unused electricity shortly after delivery occur because of:
  - mismatches between the electricity delivered and an entity's demand at the time of delivery;
  - the design and operation of the market, which prevents an entity from determining the timing or price of the sale; and/or
  - an entity expecting to purchase at least an equivalent volume of electricity within a reasonable time after the sale.

EFRAG's tentative position

In its DCL, EFRAG expressed its overall support for the proposals, suggesting, however, that the IASB clarify what might be considered as 'reasonable time' taking into account the seasonality.

For the assessment of the purpose of the contract, EFRAG acknowledged that the purpose usually includes having access to RECs and recommended to limit the assessment to considering whether the volume of electricity expected to be delivered over the remainder of the contract is for own use.

EFRAG's response to respondents' comments

EFRAG's final position

In its FCL, EFRAG supported the own use requirements outlined in the ED, maintained its comments included in the DCL and expanded some comments to align it with the feedback received by its constituents.

Specifically, EFRAG maintained its comments regarding:

- the 'reasonable time' assessment, emphasising that one month provided as an example may be too restrictive and not reflect the seasonality that might be a general driver of the nature-dependent volume uncertainty in electricity production. EFRAG recommended that the IASB state that the reasonable time period is affected by the seasonality of the production plant within a period of no longer than 12 months;
- the purpose of the contract assessment, highlighting that in presence of RECs there might be a layer of complexity which can be alleviated by disregarding the purpose of the contract but focusing on the expected electricity deliveries and whether it was for own use. To leave no room for doubt, the accounting for RECs should not be impacted by the requirements of the ED, and EFRAG would support the position that the REC component could still be accounted for as own use in line with current practice;
- consideration of reasonable and supportable information available at the reporting date for a period no shorter than 12 months, expressing that this intended relief could cause unintended consequences by raising the bar for other own use assessments that entities perform, as it could imply that entities should make detailed estimates for periods longer than 12 months for all other own use assessments;

EFRAG's tentative views expressed in the draft comment letter and respondents' comments

The ED requires an entity to consider reasonable and supportable information for the period of 12 months at the reporting date and allows to not make detailed estimates beyond that time frame. EFRAG was of the view that this intended relief could cause unintended consequences for the application of other IFRS accounting requirements.

Paragraph 6.10.3(b) of the ED provides the reasons for sales of unused electricity 'within a short period after delivery'. EFRAG noted that in some markets the participants are required to balance the supply and demand of electricity before the delivery/consumption of all types of electricity balancing on the grid; it therefore highlighted that such an assessment would be arbitrary in terms of what kind of electricity was balanced (renewable or not) and encouraged the IASB to reconsider the wording 'within a short period after delivery'.

Regarding the design and operation of the market, EFRAG stated that as long as an entity cannot determine the timing of unused electricity, its determination of the price should not prevent the contract from being assessed as own use. For example, entities may enter into contracts where they sell unused energy at pre-agreed price formulas.

In light of several PPAs that an entity might have, EFRAG suggested to clarify if the purchases to consider are from spot or forward markets and overall to specify whether the own use assessment should be conducted at the contract level or at a different level.

Respondents' comments

Comment letters

All respondents generally supported the IASB's proposals on the own use exception. Most of them raised specific concerns on the aspects presented below.

Almost all respondents raised concerns about the one month example included by the IASB in paragraph 6.10.3(b)(iii) of the ED. Respondents noted that one month

EFRAG's response to respondents' comments

- the assessment of reasons for sales of unused renewable electricity 'within a short period after delivery', drawing the IASB's attention to the fact that some markets require participants to balance the supply and demand for electricity before the period of delivery/consumption. In such cases, all expected sales to correct for misalignment with expected consumption will have to be conducted in the forward or spot market before the period of delivery. In this situation, any 'sales' within a short period after delivery would be for unexpected reasons. In addition, when an entity has multiple electricity contracts (inside and/or outside the scope of these amendments) for simultaneous delivery in a defined grid location, defining from which of these contracts sales occurred in the delivery period (or shortly after) would be arbitrary. Therefore, the use of the wording 'within a short period after delivery' was encouraged to be reconsidered; and
- the design and operation of the market, preventing the entity from determining the timing and price of sales, expressing that the timing is the primary driver of the assessment, and the impact on the price is to be reconsidered.

Further, in line with the DCL, EFRAG called upon the clarification of the practical application of the proposed amendments, highlighting that an example used in a March 2024 IASB meeting would be useful if included within the proposed amendments.

In the presence of multiple PPAs, EFRAG suggested to clarify whether the purchases to consider are from spot or forward market and to specify that the spot and forward purchases are for own use purposes and that the delivery of the forward purchases should be within the relevant period.

Based on the feedback received, EFRAG added to its FCL that in some jurisdictions, in addition to the purchaser and seller, other parties such as a supplier – which connects the purchaser to the grid – or an aggregator – which ensures the stability

EFRAG's tentative views expressed in the draft comment letter and respondents' comments

is too restrictive and could be interpreted as a maximum time frame. They also shared some seasonality-related fact-patterns where one month may not suffice (e.g. during the stormy season in the Nordic countries, offshore wind production can be well above normal production levels for several weeks). The following solutions were proposed:

a) to specify in the ED that a 'reasonable amount of time' should be based on an entity's operations to capture seasonality;

b) to extend the one month example to capture seasonality, while also stating that the period should not be longer than 12 months as an anti-abuse provision;

c) to delete the one month example;

d) to extend the wording to underline that the features of the production facility may indicate that a longer period is 'reasonable'; and

e) to clearly define the concept of reasonable time.

Several respondents raised the concern that some oversized contracts (i.e. contracts that provide more electricity than an entity's consumption) would not be within the scope of the proposals. They noted that some entities enter into contracts for renewable electricity to avoid any interruption or downtime of their operations rather than for speculative purposes. Respondents were not convinced that these contracts do not qualify for own use purposes although one of them noted that this discussion would probably need to be part of a different project so as to not delay the current proposals.

Similarly, one respondent explained that the repurchased volume should not be linked to timing but rather to the best estimate of production or consumption that the management of an entity can provide (i.e. if management estimates a

EFRAG's response to respondents' comments

of the electricity grid by balancing supply and demand – play a role in the distribution of electricity business. EFRAG recommended that the IASB clarify in the amendments that an entity should take the related ancillary services contracts into consideration when assessing whether a contract for electricity qualifies for own use purposes so that an entity can demonstrate whether it remains a net purchaser of electricity over a reasonable time frame.

Lastly, EFRAG suggested that the IASB clarify at which level an entity should conduct the own use assessment (i.e. at the reporting entity level or at a different level). For the purposes of assessing whether an entity expects to use the electricity to be delivered by the contract for own purposes, EFRAG expressed that considering only the site for which the electricity is intended or the entity signing the agreement is too restrictive if other sites or entities within the reporting entity use electricity in the same grid area.

By incorporating these comments in its FCL, EFRAG addressed the concerns raised in the comment letters and expressed by various stakeholders during the outreach events and discussions with EFRAG groups.

EFRAG did not include in its FCL the feedback received from several constituents regarding the oversized contracts. Indeed, upon the discussion with the EFRAG FR TEG and EFRAG FRB, it was noted that considering the situations where an entity enters into a known oversized contract would contradict current underlying principles of IFRS 9 and its definition of the own use exception. Further, if considered for the own use assessment, similar consideration should be given to the hedge accounting requirements, where the fair value related to the over-hedged position is not allowed to be included within the OCI but is required to be accounted for through profit or loss at the moment the entity becomes aware of such an over-hedged position.

Considering the time constraints of this project and its objectives, EFRAG deemed that discussion related to the oversized contracts or a more general discussion

EFRAG's tentative views expressed in the draft comment letter and respondents' comments

significant increase or decrease in production for a justified reason, the volume to be repurchased may change).

One respondent explained that in addition to the purchaser and the seller, the supplier, which connects the purchaser to the grid, and the aggregator, which ensures the stability of the electricity grid by balancing supply and demand, play a role in the distribution of electricity business in an entity's jurisdiction. The respondent suggested that an entity should be required to consider all the related ancillary services contracts when assessing whether a contract for renewable electricity is in the scope of the amendments and qualifies for own use purposes.

One respondent suggested that the IASB should include the numerical example provided in AP3A of the IASB meeting held in March 2024 as illustrative guidance for this amendment to help indicate the level to which an entity is allowed to buy and repurchase electricity while remaining under the scope of the own use requirements.

Paragraph 6.10.2 of the ED specifies that paragraphs 6.10.3–6.10.6 only apply to contracts for renewable electricity in the scope of the proposed amendments. One respondent was of the view that the concept introduced by the IASB in paragraph 6.10.3(a) (i.e. relying on reasonable and supportable information) should not be limited to contracts in the scope of the proposed amendments. Thus, this respondent recommended that the IASB explicitly show how this paragraph interacts with own use analysis that is not in the scope of the amendment.

One respondent recommended that the IASB add additional guidance and examples to help entities perform the required own use assessments and avoid divergence in practice. In addition, the respondent recommended that the reassessment of whether a contract qualifies for own use purposes should only be made if significant changes to the contract or the circumstances indicate that a material impact on the financial statements is to be expected rather than at each reporting date.

EFRAG's response to respondents' comments

about a unit of account and the possibility to further identify parts of the contract based on their forecasted usage would be better placed within a separate project.

EFRAG didn't include in its FCL a recommendation expressed by one constituent that the reassessment of whether a contract qualifies for own use purposes should only be made if significant changes to the contract or to the circumstances are noted. It was noted that such a request would contradict the current principles underpinning IFRS 9 and might lead to unintended consequences across IFRS Accounting Standards.

EFRAG's tentative views expressed in the draft comment letter and respondents' comments	EFRAG's response to respondents' comments
One respondent highlighted that paragraph 6.10.3(b)(ii) of the ED only refers to broad market factors but does not consider entity specific factors, which may be relevant in assessing whether a contract for renewable electricity is for own use purposes (e.g. whether an entity has the practical ability to store the electricity) *Outreach events* Participants in the outreach events challenged the 'repurchase' criterion included in paragraph 6.10.3(b)(iii) of the ED. They noted that sales of excess energy and repurchases are not always linear, in the same order, and that they not always have the same quantities. Furthermore, sales and repurchases cannot always be allocated to the same contract but to a portfolio of contracts or even to different groups of entities. They also noted that the one month example was not large enough to capture seasonality. Participants also noted that the proposals are not fit for oversized contracts. In this regard, it was noted that contracts are considered as a portfolio where the surplus of some contracts are offset by the shortcomings of others.	

EFRAG's tentative views expressed in the draft comment letter and respondents' comments

Q3 – Proposed hedge accounting requirements

Proposals in the ED

For the contracts in scope, the ED proposals permit the designation of a hedged item as a variable nominal volume of forecasted sales or purchases only if that variable amount:

- is specified as the variable volume of electricity to which the hedging instrument relates; and
- is highly probable (with the exception that forecasted sales are not required to be highly probable if the hedging instruments relate to a proportion of the total future renewable electricity sales from the referenced production facility).

The ED proposals further allow the measurement of the hedge item by using:

- the volume assumptions as those used for measuring the hedging instrument; and
- all other assumptions that should reflect the nature and characteristics of the hedged item.

EFRAG's tentative position

In its DCL, EFRAG expressed support for the IASB's proposals and appreciated the distinction between purchases and sales of the forecasted electricity.

However, EFRAG noted that the requirement for the forecasted electricity sales to not be highly probable is presented as an exception, although EFRAG expects that those forecasted sales are highly probable by design.

EFRAG's response to respondents' comments

EFRAG's final position

In its FCL, EFRAG supported the hedge accounting requirements outlined in the ED, maintained its comments included in the DCL and expanded some comments to highlight the application questions raised by its constituents.

Specifically, as it relates to the measurement of the hedge item, EFRAG noted that it was not clear how the hedging relationship is to be measured if the hedge item and the hedging instrument are in electricity markets with different trading units (for example, 15-minute versus 1-hour market), considering that the proposals in paragraph 6.10.6 of the ED are supposed to align the consumption profile with the production profile and avoid inefficiency related to the volume assumptions.

In relation to the requirements of paragraph 6.10.4(b) of the ED, namely the requirement for future electricity transactions to be highly probable for a purchaser, EFRAG suggested providing further guidance for the assessment by a purchaser of the 'highly probable' criterion. The long duration of the contracts in scope (commonly over 15 years) raises questions about whether and how such an assessment can be satisfactorily documented.

EFRAG encouraged the IASB to include a comprehensive illustrative example or group of examples to help stakeholders address application questions.

EFRAG noted that in net-settled contracts there is no purchaser or producer as the contracts are net-settled, and the seller in a (v)PPA may or may not own or control the production facility. Considering that paragraph 6.10.5 allows for the forecasted sales not to be highly probable, EFRAG suggested rewording paragraph 6.10.5 in a way that the risk of unintended consequences is mitigated. For example, 'If an entity designates renewable electricity sales in accordance with paragraph 6.10.4(a), such forecasted sales are not required to be highly probable if the

EFRAG's tentative views expressed in the draft comment letter and respondents' comments

Further, EFRAG suggested to specify why the logic outlined in paragraph 6.10.5 of the ED is limited to the contracts in scope and cannot be applied to other similar situations, for example, load-following swaps from a seller perspective.

From the purchaser's perspective, EFRAG suggested clarifying how to assess the highly probable criterion considering that the (v)PPAs are long duration contracts and raised the question whether such assessments can be satisfactorily documented.

Respondents' comments

Comment letters

All constituents were generally supportive of the IASB's ED, highlighting that the proposals would allow aligning the hedge accounting with the risk management objectives, better reflecting the economic substance of the contracts, especially for the sellers of electricity.

Several constituents commented on the reversed sequence of the hedging logic (hedged item defined by reference to the hedging instrument) considering this to be a deviation from the general hedge accounting principles, which may lead to:

a) questions in relation to the hedge accounting documentation; and

b) questions related to the effectiveness tests.

One constituent commented that applying hedge accounting would still be very cumbersome and challenging in practice due to the long duration of virtual PPAs and the complexity of making reliable fair value measurements for such contracts.

Indeed, according to paragraph 6.10.4(a) of the ED, 'the hedged item is specified as the variable volume of electricity to which the hedging instrument relates'. The proposed amendment aims at ensuring that the consumption profile and the production profile are fully aligned to avoid any potential inefficiency arising from the profile mismatch when assessing the economic relationship. However, the

EFRAG's response to respondents' comments

hedging instrument relates to a proportion of the total future renewable electricity sales **that the entity will make** from the production facility **or facilities** as referenced in the contract for renewable electricity' (paragraph 6.10.5; text added in bold).

By incorporating these comments in its FCL, EFRAG addressed the concerns raised in the comment letters and expressed by various stakeholders during the outreach events and discussions with EFRAG groups.

EFRAG did not include in its FCL views raised by some of the constituents that the highly probable criterion should be aligned with the requirements in paragraph 6.10.3(a) of the ED related to the own use assessment or be altogether removed for the forecasted purchases by symmetry with the requirements related to future sales.

EFRAG noted that the BC6.76 of IFRS 9 highlights that the hedge accounting is an exception of the normal recognition and measurement requirements in IFRS Accounting Standards and that the highly probable criterion is intended to ensure that changes in the fair value of designated hedging instruments are recognised in the cash flow hedge reserve only for those hedged forecast transactions that are highly probable to occur. This requirement is considered part of an important discipline needed in applying hedge accounting to forecast transactions.

Considering the objectives of this project as outlined by the IASB (i.e. narrow scope amendments to promptly address issues with specific contracts), EFRAG deemed that the suggestion to 'soften' or remove the highly probable criterion would be an overhaul of the principles underlying IFRS 9 and would be more appropriate as part of the PIR on IFRS 9 *Hedge accounting* or another project focused on the overall IFRS 9 principles.

EFRAG's tentative views expressed in the draft comment letter and respondents' comments	EFRAG's response to respondents' comments
profile itself must be highly probable from the purchaser's perspective at any given time. Further, as outlined in paragraph 6.10.6 of the ED, 'an entity shall measure the hedged item using the same volume assumptions as those used for measuring the hedging instrument'. This requirement also indicates that the time intervals over which the hedged item should be measured is the relevant spot trading unit of the electricity market of the hedging instrument. However, since the delivery of the electricity happens at very granular time intervals, down to 15 minutes or even less in some markets, the assessment of the highly probable criterion at each of these time intervals can be burdensome for the preparers who are purchasers in the (v)PPA. Constituents commenting on this matter encouraged the IASB to include a comprehensive illustrative example. In relation to the requirement of paragraph 6.10.4(b), several constituents noted that the assessment of the highly probable criterion represents a challenge, considering the duration of the contracts, and suggested an approach consistent with paragraph 6.10.3(a) outlining the principles and criteria for an entity's estimation of its future electricity needs for periods that are far in the future. One constituent added that, as this criterion is removed from the seller, a symmetrical removal from the purchaser's side would best accommodate the intention of the proposed amendments. *Outreach events* In general, the proposals included in the ED were welcomed. It was expressed, however, that the amendments represent a good solution for producers/suppliers rather than for buyers, the reason being the highly probable requirement. For buyers, VPPAs are now eligible for designation as a hedging instrument, including a variable quantity. Nevertheless, the existing conditions of probability of occurrence and measurability of expected effectiveness remain valid.	

EFRAG's tentative views expressed in the draft comment letter and respondents' comments

Q4 – Proposed disclosure requirements

Proposals in the ED

Proposed disclosures for sellers and purchases include:

- terms and conditions of contracts;
- the volume of renewable electricity that a seller expects to sell, or that a purchaser expects to purchase, over the remaining duration of the contracts (using specified time bands if desired), or the fair value at the reporting date;
- the proportion of renewable electricity covered by the contracts to the total electricity sold or purchased for the reporting period; and
- purchasers' need to disclose the total net volume of purchased electricity, the average market price per unit of electricity and whether the total net volume multiplied by the average market price differs substantially from the actual total cost along with a qualitative explanation of the key reasons for this difference.

EFRAG's tentative position

In its DCL, EFRAG highlighted that the proposed disclosure requirements would impact any entity subject to a contract in scope regardless of whether the contract would otherwise be within the scope of the proposed requirements for own use or hedge accounting. This would impose an additional burden on entities that account for such contracts at fair value through profit or loss.

Moreover, EFRAG was of the view that users would already get enough information from both primary financial statements and the notes to the contracts, which are accounted for at fair value. Therefore, it was suggested that

EFRAG's response to respondents' comments

EFRAG's final position

In its FCL and based on the feedback received, EFRAG supported the disclosure requirements outlined in the ED, maintained its comments included in the DCL and added constituents' feedback related to the information being excessive, burdensome and commercially sensitive.

Specifically, EFRAG emphasised that the proposed disclosure requirements should apply only to contracts within the scope of the ED that qualify for the own use exception from the purchaser's side, as all other cases would already be covered by IFRS 7, IFRS 13 and/or IFRS 15 disclosure requirements, which are deemed sufficient.

EFRAG suggested that the disclosure requirement of volume by range of periods in paragraph 42T(b)((ii) of the ED be made mandatory. However, EFRAG suggested allowing management to define relevant time ranges instead of prescribing them.

EFRAG questioned whether the items of information requested in the last sentence of paragraph 42U and in paragraph 42V(a) of the ED (i.e. the proportion of renewable electricity covered by the contracts to the total sales / purchases of electricity) are fit for the purposes of financial statements. This information may be better placed in the sustainability report. In addition, since the scope of the amendments does not encompass all contracts for renewable electricity, the requested information may be misleading as it is incomplete.

For the purposes of allowing users of financial statements to understand how the contracts in the scope of the ED affect the purchaser's performance for the reporting period, EFRAG suggested to provide information related to the financial impacts of the sales of unused volumes on the market (in case of physical PPAs to which the own use exception has been applied). EFRAG expressed its view that

EFRAG's tentative views expressed in the draft comment letter and respondents' comments

the disclosure requirements should be applied only to the contracts which meet own use exception requirements.

Regarding the information to be disclosed within time bands, EFRAG suggested that such disclosures should be mandatory; however, the definition of relevant time bands should remain within the purview of management.

Regarding the proportion of renewable electricity covered by the contracts in scope to the total sales or purchases of electricity, EFRAG noted that this information would be better placed in the sustainability report. Further, contracts in scope would represent only a part of the information to be provided in the sustainability report, and this partial information may be misleading as it would be incomplete.

Regarding the specific requirement for sellers in the contract within the scope of the ED, EFRAG notes that disclosure requirements of IFRS 15 or IFRS 7 are already applicable to all contracts meeting or failing own use requirements, respectively, and suggested not to include additional disclosure requirements that are specific to contracts for renewable electricity.

Lastly, EFRAG highlighted that users need to understand how the contracts in the scope of the ED affect the purchaser's performance and suggested to include within the disclosure requirements information related to the financial impacts of the sales of unused electricity on the market.

Respondents' comments

Comment letters

Two respondents agreed with the IASB's suggested disclosures. They were of the view that fair value has little, if any, value to investors and users given all the uncertainties around key valuation inputs. Another respondent considered that the requirements included in paragraph 42T of the ED are reasonable and well-balanced. Another respondent agreed with the IASB that the terms and conditions

EFRAG's response to respondents' comments

information required under paragraph 42V of the ED is not an appropriate proxy for this suggested disclosure.

In this regard, EFRAG has received feedback whereby the items of information required in paragraphs 42V of the ED are excessive and burdensome. Some of these items could also be commercially sensitive. In addition, there would be significant differences with the disclosures required for other executory contracts outside the scope of these proposals. Therefore, EFRAG suggested that the IASB reconsider the appropriateness of these items. If the IASB keeps these disclosures, EFRAG recommended to outline why their benefits would exceed their implementation costs.

By incorporating these comments in its FCL, EFRAG addressed the concerns raised in the comment letters and expressed by various stakeholders during outreach events and discussions with EFRAG groups.

It is noted that the comments related to the expansion of the disclosure requirements to other off-balance sheet commitments or other own use contracts are included in the section dedicated to question *1 Scope of the proposed amendments.*

EFRAG's tentative views expressed in the draft comment letter and respondents' comments	EFRAG's response to respondents' comments
of the contracts and the average market price are readily available and should be provided. Other respondents agreed with the disclosures proposed by the IASB except for some aspects discussed in the remarks included below. Many of respondents considered that the scope of the proposed disclosures should only apply to contracts for renewable electricity that qualify for own use purposes. Two of them overall agreed with EFRAG's DCL with a special emphasis on this aspect. Another respondent considered that the information required for contracts accounted for at fair value was to a certain extent redundant with respect to the information already required by IFRS 7 and IFRS 13. Conversely, one respondent considered that homogeneous information for contracts having the same economic characteristics may be useful for users even when the accounting treatment of such contracts is different. In line with EFRAG's DCL, some respondents considered that the information requested in paragraph 42U and/or 42V(a) of the ED fits better in the sustainability report. One of them also noted that since the scope of the amendments does not include all contracts for renewable energy, the disclosure would be misleading. Some respondents considered the disclosure requirements included in paragraph 42V (especially (b) to (d)) to be excessive and burdensome and that they could potentially result in misleading information. Furthermore, it was also noted that this disclosure could be seen as a proxy for the price of the contract and commercially sensitive and that other IFRS Standards do not require entities to provide similar information. One additional respondent pointed out that this information could be required only if an entity does not disclose the fair value of the contract. Otherwise, the benefits of the disclosure may not outweigh the costs of applying the requirements. One respondent stressed that paragraph 42U of the ED requires disclosures about contracts that are in the scope of IFRS 15. They considered that IFRS 15 disclosure	

EFRAG's tentative views expressed in the draft comment letter and respondents' comments	**EFRAG's response to respondents' comments**
requirements suffice but recommended that, if needed, additional disclosures should be mandated by IFRS 15 rather than by IFRS 7. Another respondent expressed the view that the disclosure requirements proposed in the ED should be requested in IAS 37 and IFRS 15 instead, so they apply to executory contracts outside the scope of the ED. They also noted that the IASB should clarify if the requirement included in paragraph 42U of the ED applies to renewable energy producers only. Otherwise, the disclosure may be applicable to buyers performing sales due to a mismatch. One respondent agreed with the suggestion included in EFRAG's DCL that the disclosure requirement in paragraph 42T of the ED should be mandatory to give an entity flexibility to define relevant time ranges, as it relates to the disclosure of volume by range of periods. They also agreed with EFRAG that it would be useful to provide information related to the financial impacts of the sales of unused volumes on the market (in case of physical PPA). One respondent noted the lack of linkage between the disclosure objectives included in paragraph 42T of the ED and the proposed requirements, especially in the case of the proposal included in paragraph 42U, and encouraged the IASB to include the linkage. Another respondent considered that the disclosure objectives should only be stated once and avoid using the same terminology. *Outreach events* Participants in the outreach events raised the concern that the disclosures required for the contracts in the scope of the proposed amendments are more extensive than for other similar contracts. It was suggested that the disclosures should only be required from contracts that meet the own use requirements. Furthermore, it was unclear whether the volume disclosure required by paragraph 42U of the ED refers to energy units or monetary units. Members of the EFRAG User Panel noted that this project demonstrated the connectivity between financial and sustainability reporting and supported the	

EFRAG's tentative views expressed in the draft comment letter and respondents' comments	EFRAG's response to respondents' comments
consistency of overlapping disclosures. Members also discussed whether brown energy cold be claimed to be renewable if an entity bought separated renewable energy certificates (RECs). On this aspect, members provided mixed views. A member noted that sustainability reporting did not permit this practice and that, therefore, brown energy could not be turned into green energy by attaching RECs. Conversely, another member explained that this was a usual practice in her jurisdiction. One member of the EFRAG User Panel considered that sustainability disclosures were helpful, especially those providing information on the seller of renewable energy. They were of the view that sustainability reporting should take the lead in providing sustainability disclosures. Sustainability information might be included in financial reporting, but it should be taken from sustainability reporting to be consistent. A few members considered that some information on RECs should be disclosed for transparency purposes. A member of the EFRAG User Panel noted that investors were more interested in understanding the actual cost of electricity per kilowatt and how variable this is going to be going forward rather than sustainability aspects. The purpose was to use this information to build discounted cash flows. They considered that the disclosures requested in the ED were generally useful and helped in understanding cash flows but did not necessarily provide investors with information on the implications and risks of an entity moving towards a renewable energy consumption approach (e.g. on the risks of prices being negative due to an excess in production and how an entity could mitigate that).	

EFRAG's tentative views expressed in the draft comment letter and respondents' comments

Q5 – Proposed disclosure requirements for subsidiaries without public accountability

Proposals in the ED

The same disclosure requirements are included in the proposed amendments to IFRS 19 as in the proposed amendments to IFRS 7 except for paragraph 42W of the ED ('… an entity shall consider how much detail to disclose, how much emphasis to place on different aspects of the disclosure requirements, the appropriate level of aggregation or disaggregation, and whether users of financial statements need additional explanations to evaluate the quantitative information the entity has disclosed …').

EFRAG's tentative position

EFRAG highlighted that IFRS 19 *Subsidiaries without Public Accountability: Disclosures* has not yet been endorsed in the EU. Therefore, the endorsement of the amendments resulting from this ED is conditional on the outcome of the EU endorsement process of IFRS 19.

Comments included to address question 4 above apply to the proposed amendments to IFRS 19, both relating to the scope of the proposed disclosure requirements as well as the substance of the information that is to be disclosed.

Further, EFRAG considers that the requirements proposed within paragraph 42W of the ED would also be relevant for subsidiaries without public accountability, specifically the fact that the entity shall consider how much detail to disclose, how much emphasis to place on different aspects of the disclosure requirements, the appropriate level of aggregation or disaggregation and whether users of financial statements need additional explanations to evaluate the quantitative information the entity has disclosed.

EFRAG's response to respondents' comments

EFRAG's final position

In its FCL, and based on the feedback received, EFRAG supported the disclosure requirements outlined in the ED and maintained its comments included in the DCL, specifically:

- its note regarding the endorsement status of IFRS 19 and the consequences of it on the proposed disclosure requirements of the ED;
- its note whereby the comments provided to address question 4 apply to the proposed amendments to IFRS 19, both relating to the scope of the proposed disclosure requirements and the substance of the disclosed information; and
- its assessment that paragraph 42W of the ED is equally relevant for subsidiaries without public accountability and the suggestion to clarify in the Basis for Conclusions that these requirements are already incorporated within the IFRS 19 Standard and that they are not specific to the proposed amendments but also apply in this case.

EFRAG's tentative views expressed in the draft comment letter and respondents' comments	EFRAG's response to respondents' comments
EFRAG suggests clarifying in the Basis for Conclusions that these requirements are already incorporated within the IFRS 19 Standard and that they are not specific to the proposed amendments but also apply in this case. *Respondents' comments* Feedback received on this question was limited to three respondents. One of them agreed with the IASB proposals because entities are exposed to significant risk due to the long-term nature of these contracts, and users should receive adequate information. In the view of this respondent, the required information must be readily available. Two respondents agreed with the comment raised in EFRAG's DCL that paragraph 42W of the ED would also be relevant for subsidiaries without public accountability.	

EFRAG's tentative views expressed in the draft comment letter and respondents' comments

Q6 – Transition requirements

Proposals in the ED

The ED proposes that the requirements related to the own use exception be applied retrospectively in accordance with IAS 8; however, an entity is not required to restate prior periods to reflect the application of the amendments. An entity is permitted to restate prior periods if, and only if, it is possible to do so without the use of hindsight.

The ED proposes that the requirements related to hedge accounting be applied prospectively to new hedging relationships. An entity is permitted to change the designation of the hedged item in a cash-flow-hedging relationship that was designated before the date in which the amendments were first applied without discontinuing such relationship.

EFRAG's tentative position

In its DCL, EFRAG welcomed the transition requirements proposed by the IAS but suggested allowing entities to reassess the requirements of paragraph 2.5 of IFRS 9 upon transition to the proposed amendments.

EFRAG suggested modifying the requirement of the ED to limit the possibility for an entity to change the designation of the hedged item designated in an existing hedging relationship only in the first year of the application of the proposed amendments.

Moreover, EFRAG suggested clarifying the transition requirements for the contracts in the scope of the proposed amendments which were previously accounted for as cash flow hedge but which meet the own use exception requirements based on the proposed amendments.

EFRAG's response to respondents' comments

EFRAG's final position

In its FCL, EFRAG supported the transition requirements outlined in the ED and maintained its comments included in the DCL, specifically:

- the suggestion to allow the reassessment of the application of paragraph 2.5 of IFRS 9 upon transition, thus allowing the contracts in scope to still be presented at fair value through profit or loss if the requirements in paragraph 2.5 of IFRS 9 are met;
- the suggestion to modify the requirements of paragraph 7.2.52 of the ED to limit the ability of an entity to change the designation of the hedged item designated in a hedging relationship before the date the amendments are first applied, i.e. only in the first year of the application of the proposed amendments; and
- the suggestion to clarify the transition requirements for the contracts in the scope of the proposed amendments which were previously accounted for as cash flow hedge but which meet the own use exception requirements based on the proposed amendments.

Based on the feedback received, EFRAG added to its final comment letter the following:

- the suggestion to consider the possibility to apply the hedge accounting requirements retrospectively, taking into account situations where there is a perfect economic relationship between the hedged item and the hedging instrument. An entity which would have previously designated the hedged item as a fixed quantity with the resulting ineffectiveness of the hedging relationship should be able to neutralise the effects of such

EFRAG's tentative views expressed in the draft comment letter and respondents' comments

Respondents' comments

Comment letters

The majority of the constituents were supportive of the IASB proposals and also agreed with EFRAG's comments included in the DCL.

Several constituents argued that the IASB should consider the application of hedge accounting requirements retrospectively (as a general transition requirement or as an option) considering that there is a perfect economic relationship between the hedged item and the hedging instrument.

To support the discussion, these constituents considered a situation where an entity previously designated the hedged item as a fixed quantity, triggering ineffectiveness, but they would amend the designation of the hedged item as proposed by paragraph 7.2.52 of the ED. The question that was raised related to how the entity should design the hypothetical derivative and recycle the amount accumulated in OCI, as the two elements would have mismatches representing the previously recognised ineffectiveness that would not have occurred if the entity had the possibility to apply the amendment from the inception of the hedging relationship.

One of the constituents asked for clarification on the date at which the modelling of a hypothetical derivative should be performed when measuring the ineffectiveness at transition and how to account for the ineffectiveness thus identified (through equity, P&L or spreading over the residual maturity). Another constituent called for the transition provisions aiming at avoiding the recognition of technical ineffectiveness due to the non-zero starting hedging instrument at hedge inception for contracts that were previously measured at fair value through P&L but that could now be designated in a hedging relationship.

Outreach events

No issues were raised regarding the proposals of the ED.

EFRAG's response to respondents' comments

previous ineffectiveness when amending its hedging relationship, as provided in paragraph 7.2.52 of the ED; and

- the suggestion that an entity, which previously would not have designated a hedge relationship but which would now be able to do so, not be forced to recognise ineffectiveness, during the entire hedging period, just because of the non-zero fair value of the hedging instrument at the first time of adoption of the amendments.

EFRAG's tentative views expressed in the draft comment letter and respondents' comments

Q7 – Effective date

Proposals in the ED

Subject to feedback on the proposals in this Exposure Draft, the IASB aims to issue amendments in the fourth quarter of 2024. The IASB has not proposed an effective date before obtaining input about the time that is necessary to apply the amendments; however, it suggested 1 January 2025.

EFRAG's tentative position

In its DCL EFRAG was seeking constituents' views on the effective date.

Respondents' comments

Comment letters

EFRAG's constituents expressed two views on the matter. A group of stakeholders noted that the amendments are eagerly awaited and that, therefore, they should be applicable as soon as possible, supporting the 1 January 2025 effective date.

Another group of stakeholders suggested taking into consideration the endorsement process in Europe and the internal control requirements for the entities subject to the integrated audit report, thus suggesting 1 January 2026 as an effective date.

Outreach events

In response to the IASB suggestion (first-time application from 1 January 2025), it was suggested that mandatory first-time application from 1 January 2026 would be more appropriate, accompanied by an option for voluntary early application.

EFRAG's response to respondents' comments

EFRAG's final position

Aiming at a balanced solution to satisfy the two views expressed by the constituents, EFRAG suggests as an effective date the annual periods beginning on or after 1 January 2026, with the possibility of early application.

Appendix 1: List of respondents

Table 1: List of respondents

Name of respondent[1]	***Country***	***Type / Category***
1/ Autorité des Normes Comptables (ANC)	France	National Standard Setter
2/ Ermelindo Varela	Belgium	Solo Practitioner
3/ European Savings And Retail Banking Group (ESBG)	Europe	Preparer Organisation
4/ Organismo Italiano di Contabilità (OIC)	Italy	National Standard Setter
5/ Rådet för hållbarhets- och Finansiell Rapportering – Swedish Corporate Reporting Board (SCRB)	Sweden	National Standard Setter
6/ Instituto de Contabilidad y Auditoria de Cuentas (ICAC)	Spain	National Standard Setter
7/ Accountancy Europe (AcE)	Europe	Accounting Organisation
8/ Raad voor de Jaarverslaggeving – Dutch Accounting Standards Board (DASB)	Netherlands	National Standard Setter
9/ European Securities and Markets Authority (ESMA)	Europe	Enforcer
10/ Austrian Financial Reporting Advisory Committee (AFRAC)	Austria	National Standard Setter
11/ BusinessEurope	Europe	Preparer Organisation
12/ Norsk RegnskapsStiftelse – Norwegian Accounting Standards Board (NASB)	Norway	National Standard Setter

[1] Respondents whose comment letters were considered by the EFRAG FRB before the finalisation of the comment letter.